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THE CLERK: Civil Action 1:21-cv-396, Athena
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   Construction Group, Inc. v. Smith, et al.
 3
             Counsel, will you please note your
  appearances for the record.
4
             MR. DOWNEY: Good morning, Your Honor.
  Downey for the defendant. I'd like to introduce Glen
6
7
  Ellis, who will be presenting the argument today.
             THE COURT:
                         All right. Welcome.
             MR. ELLIS: Good morning, Your Honor.
             MR. JOHNS: Good morning, Your Honor.
                                                   Milton
11
   Johns for Athena Construction.
12
             THE COURT: All right. We're here on the
13
  defendant's motion for costs and attorney's fees.
  have read the briefing. I'd be pleased to hear further
15
  from counsel.
             MR. ELLIS: Yes, Your Honor.
                                           This motion is
  being brought solely by RE Construction, one of the
17
18
  defendants in the case that was brought against them by
19
  Athena. The reason why RE Construction has asked us to
  Ifile this case is because there was simply no basis for
  them to ever be included, and it would be unreasonable
  and completely unfair to have them pay half of the
22
  attorney's fees to defend what on its surface was
  clearly a frivolous and bad faith lawsuit.
25
             We've brought this motion under both the
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Virginia good faith statute, which governs the
  requirements of an attorney signing a complaint --
  since this case was initially filed in state court --
   and also under the Virginia Uniform Trade Secrets Act,
5
  which allows the Court to issue attorney's fees for bad
  faith cases.
6
7
             The Virginia good faith statute is very
  similar to the Rule 11 statute that we have here in
  federal court.
9
10
             THE COURT: It doesn't prescribe the
11
  procedure as Rule 11 does, though.
12
             MR. ELLIS: No, it doesn't have the
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  procedures and the safe harbor and everything that
  Rule 11 has. But it sets forth what would be the
  basis, and it sets forth kind of -- they use a
15
  reasonableness standard and whether or not the
  complaint, prior to being signed by counsel, is well
17
18
  grounded in fact.
19
             THE COURT: Right.
20
             MR. ELLIS:
                         And that's the issue.
21
             THE COURT: I think it's an open issue,
22
  whether that statute applies, frankly. I think it
23
  depends on whether it's viewed as a procedural statute
  or a substantive statute. It think if it's procedural,
25
  lit's simply displaced by Rule 11. If it's substantive,
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then perhaps it applies, whether someone can recover
  under it, if it does apply, under circumstances where
  Rule 11 might not apply.
4
             MR. ELLIS: Well, I think Your Honor is
5
  right. The Fourth Circuit hasn't spoken on it.
6
             THE COURT:
                         Right.
7
             MR. ELLIS: There could be, like Your Honor
  was talking about, the issue with waiving Fifth
  Amendment rights. It depends on how you would
10
  ∥interpret. There are courts that have -- and we cite
   to it in a footnote -- that have looked at it and
12
  interpreted it.
13
             THE COURT: Right.
14
             MR. ELLIS: Regardless, even under the
  Virginia standard, whether you look at it under Rule 11
  or whether you look at it under the bad faith standard,
17
  under the Virginia Uniform Trade Secrets Act, the fact
18
  here is that there was nothing -- there was no basis to
19
  include RE Construction.
20
             THE COURT: The fees were awarded under the
21
  Trade Secrets Act. That would be limited to the trade
22
  secrets count; wouldn't it?
23
             MR. ELLIS: Well, I would argue that it would
  not, Your Honor. Because here what were the
25
  allegations were so interwrapped between all of the
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criminal computer statutes that there was no way to
really just defend against --
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THE COURT: They argue you would spend the same amount of money if that were the only count.

MR. ELLIS: Quite frankly, they brought a conspiracy claim that made RE Construction liable potentially for all of the other claims, including the Virginia statute and the other computer criminal act. And there was simply no reason for them to be ever in this case. Quite frankly, the response from Athena virtually admits that.

The only facts in the case as to why they lincluded them was there was a close familial 14 relationship. There was a suggestion of cohabitation, an in-law relationship, and RE Construction -- someone at RE Construction had put their records, their medical records on this hard drive. That's it. That's the allegations that they suggest should have allowed them to put forward a well-grounded complaint of computer hacking and trade secret theft against RE Construction. There's no suggestion -- there's no facts that any of those actions were actually committed by anyone at RE Construction.

I will point to the Court's attention on page 10 of the defendant's response. Their response,

the last sentence, is Athena had a good faith basis to believe that discovery in this action would reveal the extent of RE Construction's access and use, discovery.

In other words, this has always been a fishing expedition against RE Construction and that they were hoping that maybe they would find something in discovery. That is not the basis -- that does not meet the requirements of whether you look at a Rule 11 or through a Virginia court or even the bad faith statute under the Trade Secrets Act.

They had to have a complaint well-reasoned in fact against RE Construction, not against Mr. Smith, against RE Construction. They had to have it against both of them. We're here about RE Construction.

There was nothing in the complaint that suggests RE Construction had ever misappropriated -- had ever accessed these documents, misappropriated these documents, or done anything with this hard drive other than put their own sensitive medical records on there, apparently by accident, since the hard drive was then later claimed by Athena.

In that case, it is clear that there was no basis for it. So why did they bring the case? Why did they bring the case against RE Construction? They had already sued Mr. Smith twice in state court. Well,

they brought it because of those exact reasons that I just mentioned. They knew that RE Construction's owner was a close familial member. They thought that there was a cohabitation there. They brought it to harass the relator in the qui tam case, to cause more problems in his life, to drive up the litigation costs to not only himself but now to his in-law.

What other facts are there? Well, we know that this case was not filed until the relator decided to proceed after the government declined. So those are the facts that I think this Court, looking at this complaint and the pleadings and the briefings, can draw an inference that this was not a properly filed complaint, that this complaint was not brought for proper purposes, and that this complaint -- the filing of this complaint should result in the award of costs and attorney's fees, not only because of what happened here, but also how the Athena defendants used the Virginia courts as a tool to attack the relator who had a case in a D.C. court.

And if defendants, who are the subject of quitam cases, can collaterally attack relators in state court or other federal courts other than where the quitam case resides and collaterally attack their familial members with these kinds of threadbare and baseless

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complaints, then that is exactly what defendants facing relators are going to do.

They are going to attack those relators' families and themselves collaterally because it drives up the cost of the relator. We had to get local counsel. We've had to expend almost 90 hours in this case even though it's only been in suit for less than That is the deterrence mechanism that six months. Rule 11 exists for. That is the deterrence mechanism that the Virginia state court ruled the good faith Virginia statute exists for, and that is the different 12 Imechanism that the Virginia Trade Secrets Act has to prevent this from happening.

THE COURT: I'll ask counsel this, but perhaps you know as well. The forensic report that the plaintiffs produced with respect to the disk, does it state when the Athena files were actually downloaded onto that disk? I know the report says it was sometime prior to January-February 2016, but can they tell specifically when those files were originally copied to that disk?

MR. ELLIS: Yes, Your Honor. There is a specific column, and it's in the footnote of the There's a specific column in that report that, report. lif you look at the attachment, you can see that date.

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That's how we knew. When we looked at it, that's how
  we knew that all of these files -- I forget, 15-some
  thousand files, all except for the medical records that
  belong to RE Construction were downloaded before
  Mr. Smith left the employment of Athena, which comports
  with his recollection, which was that all of these
  Ifiles were downloaded as part of a backing up system in
  2013 or 2014.
9
             THE COURT: What's that date range that they
  were actually downloaded?
                              2013 or 2014?
11
             MR. ELLIS: I don't recall, Your Honor.
                                                      It's
  in our motion to dismiss. I believe the latest was,
13
   like, 2014. That's why, if you actually look at the
14
  documents, even though he was employed until 2016,
  there's nothing from 2014 to 2016.
15
16
             THE COURT: All right.
17
             MR. ELLIS: So I mean, that's why none of
18
   this has ever made any sense. Because if he really
19
  hacked the system like they're suggesting, why would he
  stop?
         You know, why would he only take his Outlook
21
  files and only up until 2014?
22
             THE COURT: Right.
23
             MR. ELLIS: So those are the reasons why
  we've asked.
                 This is the third lawsuit. We're asking
25
  the Court for this, in part, to end the behavior of
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Athena.
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 2
             THE COURT:
                         All right. Thank you.
 3
             MR. ELLIS:
                         Thank you, Your Honor.
 4
             THE COURT:
                         Counsel.
5
             MR. JOHNS:
                         Good morning, Your Honor.
6
             THE COURT:
                         Good morning.
7
             MR. JOHNS:
                         With your permission, I'm going
  to lower my mask.
8
9
                         Yes.
             THE COURT:
             MR. JOHNS: It'll be a little bit easier
10
11
   to --
12
             THE COURT: Could you address my question.
13
  Do you agree with counsel that the report shows the
  actual downloading of Athena files sometime prior to
  2016?
15
16
             MR. JOHNS: Well, Your Honor, I think the
17
  report shows that there is activity before and after
18
  determination.
19
             THE COURT: I understand that. My question
  lis does it reflect when the Athena files were first
21
  downloaded to the disk? Counsel says that there's a
22
  footnote that says it was sometime in 2013, '14, '15.
23
             MR. JOHNS: I'm looking at the report.
2.4
                         I have the report. I, frankly,
             THE COURT:
25
  didn't find the attachment.
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             MR. JOHNS: Your Honor, we -- our reading of
   the report is that the files were -- that that hard
 3
  drive was attached to a computer January 25, 2016.
 4
             THE COURT: I understand that you've alleged
 5
  that the Athena files were, in fact, downloaded on
  January 25, 2016. My question is really, is that
 6
 7
  supported by the report? I know what the narrative of
  the report is. I'm interested in whether you agree
  with counsel that the footnote indicates dates of
  actual downloading that preceded 2016.
11
             MR. JOHNS: Your Honor, I'm looking at -- I'm
12 looking at the Exhibit B. I don't see a date in a
13
  footnote in that exhibit.
14
             THE COURT: All right. Well, let me ask you
  this: Other than the disk itself and the forensic
15
  report and the fact that the defendant went to work for
  RE Construction, what other basis or evidence was there
17
18
  to support the complaint?
19
             MR. JOHNS: Well, we think the forensic
  analysis is really the central part of it.
21
  relationship -- we have alleged communications between
22
  Smith and --
23
             THE COURT: What was the basis for that
24 allegation?
               What was the evidence you had that there
25
  were discussions pertaining to the conspiracy that you
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Because you allege in the complaint that
  mentioned?
   Smith committed the violations before becoming an
  employee or, if he was an employee, he was acting
   outside the scope of his employment at RE Construction.
5
  So that would essentially eliminate any agency theory
  of liability.
6
7
             MR. JOHNS: Well --
8
             THE COURT: So what evidence did you have
9
   that there were conspiratorial communications?
10
             MR. JOHNS: So the communications, Your
  Honor, go to what we found on the hard drive, which is
12
  not evidence --
13
             THE COURT: Which was what? There was just
  simply the Athena files?
15
             MR. JOHNS: There were Athena files.
16
             THE COURT: Right, and the date of those
17
  would obviously be important. Then there were
18
  documents, RE Construction documents.
19
             MR. JOHNS: RE Construction documents.
20
             THE COURT:
                         Right. So how --
21
             MR. JOHNS:
                         There were QuickBook files that
22
  had actually been deleted from --
23
             THE COURT: I'm sorry?
2.4
             MR. JOHNS:
                         There were QuickBook files that
25
  had actually been deleted.
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THE COURT: QuickBook files of who?
1
 2
                         RE Construction.
             MR. JOHNS:
 3
             THE COURT:
                         Right. So why would any of that
4
   support conspiracy claims?
5
             MR. JOHNS: Because there is no other way for
   them to get onto the hard drive without cooperation
6
7
  between Smith and RE Construction.
8
             THE COURT:
                         Smith's access to RE
9
  Construction's computer, why would that support your
10
  conspiracy claims based on the Athena files?
11
             MR. JOHNS: Well, the conspiracy theory is,
12
  Your Honor, that RE Construction provides this disk,
13
   this hard drive to Smith. Smith accesses the Athena
  files either himself or through --
15
             May I have a small drink of water, Your
16
  Honor?
17
             THE COURT:
                         Yes.
18
             MR. JOHNS:
                         Thank you, Your Honor.
19
             THE COURT: Does the report through the
20
  metadata reflect when the Athena files -- not only get
21
  downloaded but were actually accessed as opposed to the
  disk itself in some fashion being accessed?
22
23
             MR. JOHNS:
                         It does show that, when the files
  were accessed.
                   The file list is hundreds of pages.
25
             Frankly, Your Honor, this was -- you know, on
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a 12(b)(6) motion, we have consideration of evidence.
  We don't have Mr. Lyle on the stand to explain the
 3
  findings.
4
             THE COURT: I understand, but we're beyond
5
  that. We're beyond the allegations. The guestion is
  whether you had a good faith basis for bringing the
7
  allegations. It depends on what evidence you had,
  whether it's reflected in the complaint or not, what
  evidence you had to in good faith believe you had these
10
  claims. I'm trying to understand what evidence you had
11
  beyond the disk itself and the report.
12
             MR. JOHNS: So it was the -- so the disk, the
13
  report, the findings in the -- that were downloaded and
14
  then, again, the existence of this hard drive, which
  was originally alleged to have come from Athena
15
  Construction by Mr. Smith.
                               The forensic analysis
  showed it did not come from Athena Construction.
17
18
   think --
19
             THE COURT: Well, the disk was something that
  was supposedly not an Athena disk. I'm not sure how
  you determined that, but let's assume that's true.
  not sure what it means when it says the disk didn't
22
   come from Athena Construction.
2.4
             MR. ELLIS: Well, it wasn't --
25
                         Isn't a disk fairly genetic?
             THE COURT:
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MR. JOHNS: The theory is it was not his
   property when he was an employee with Athena; it's
  someone else's property.
             THE COURT:
                        Right.
             MR. JOHNS: And what we found, again, from
   the report looking at those thousands of files, when
   they were accessed after the time that Smith has left
  the employ of Athena, the presence of the RE
  Construction files on the disk, the living
  relationships, the employment relationships, all of
   those, we believe, created a reasonable inference that
12 we can rely on as part of our complaint.
             I think that the standard says that you --
  that the reasonable inference that can be made is what
  could be -- it could be found in discovery, and it's
  not, well, we're going to go into discovery and find
  our evidence. It's are the inferences supported or is
  the good faith basis established by what we have at the
  time and what we believe we can find in discovery.
                                                       And
  so I think those are all of the good faith bases.
             You know, if I can just add a couple of
  things. I think there are significant procedural
  hurdles on this motion because there was no 21-day --
             THE COURT:
                         I understand that, but let me ask
  you this: There's an allegation that the company was
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damaged in the amount of $2 million, which increased
  \parallel from $60,000 or $70,000 in the original complaint.
  What evidence did you have that any of the information
   on the disk had been or was about to be utilized that
5
  was reflected in anything that you knew about?
6
                         The allegations were that at the
             MR. JOHNS:
7
   time that the download was made, that RE Construction
  was in the midst of litigation with Athena.
9
             THE COURT: Right, as a subcontractor.
  there anything in that litigation that would suggest
   that RE Construction was utilizing in any way any of
12
  the information on the disk?
13
                         It's -- it would be difficult to
             MR. JOHNS:
  say what they were using and what they weren't using at
  that time.
15
16
             THE COURT: Well, there was an allegation
17
  Ithat this information was, in fact, being used as part
18
  of your trade secrets claim, that it was being
19
  misappropriated and used. What evidence did you have
20
   of that?
21
             MR. JOHNS: So, again, the evidence is that
22
   it's on a hard drive that is also with RE Construction,
   QuickBook files, financial files --
23
2.4
             THE COURT:
                         Right.
25
                         -- and the other documents.
             MR. JOHNS:
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\parallelI believe that for 12(b)(6) purposes and for purposes
   of filing the complaint, it creates a reasonable
  inference that can be followed up. Again, the 12(b)(6)
   analysis was done with -- considering evidence.
5
  Normally, we wouldn't put evidence on.
6
             THE COURT:
                         Right. I'm trying to find out
7
  what the evidence was even though it's not reflected in
  the complaint.
8
9
             MR. JOHNS:
                         Right.
                                 I think a good faith
  basis does not require having all of the evidence that
11
  will ever support the complaint.
12
             THE COURT:
                         No, just some evidence.
                         And I think that there is
13
             MR. JOHNS:
  significant evidence that circumstantially ties these
  two parties together.
15
16
             THE COURT: Let me just ask this:
17
  have any evidence at the time that the two companies
18
  were in competition for the same clients or that there
19
  was a loss of business or that a client that had
  previously worked with Athena was now working with RE
21
  Construction or that any of the information was used in
22
  bids or pricing or anything like that?
23
             MR. JOHNS: So RE Construction was a
2.4
  subcontractor.
25
             THE COURT:
                         Right.
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MR. JOHNS: And so the -- so with the trade
secret claim, under the Virginia Uniform Trade Secrets
Act, you can state a claim by possession as well.
our reading of the VUTSA is that use is not a mandatory
condition for finding a violation. Obviously, we --
          THE COURT:
                      That's what you allege. You say
that the defendants intentionally, willfully, and
maliciously required, disclosed, and used Athena's
trade secrets.
          MR. JOHNS: Well, Your Honor, again, that is
our inferential belief based on the facts and
circumstances and everything that was presented, again,
along with the significant presence of the Athena files
acquired after the employment of Smith had ended.
          THE COURT: Again, just so I'm clear,
\|Counts 2, 3, and 4 all relate to computer fraud,
computer invasion. You lump Smith and RE Construction
together. You didn't have any evidence that the
construction company was invading your computers in any
fashion?
                      We had a reasonable --
          MR. JOHNS:
          THE COURT:
                      The only actor here was Smith, is
that right, that you allege?
          MR. JOHNS: Well, we know it has to have been
at least Smith because he's the one who produced the
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hard drive.
1
2
             THE COURT:
                         Right.
 3
             MR. JOHNS: Again, the reasonable
4
  ∥inference -- given all the things that are in the
5
  complaint, the reasonable inference is that this was
  some concerted effort, after he's left Athena, to
7
  retrieve and to recover those files, financial files
  land invoices and contracts and so forth.
  all of those create reasonable inferences that create
  the good faith basis to put forward the complaint.
11
             THE COURT:
                         All right.
12
             MR. JOHNS:
                         Then, Your Honor, Mr. Ellis
13
  didn't speak about Rule 11 in his presentation.
14
  briefed. I think three issues related to that.
  spoken a lot about the substantive part.
                                             There was no
  \|21-day service, which is required by the rule.
17
  was filed after the close of the case, and the Fourth
18
   Circuit says that in both of those instances, you don't
19
  have access to Rule 11.
20
             And then, also, there's been no presentation
  of what the attorney fees are or what they amounted to.
21
22
  And so even if the Court was inclined to award those
  fees, they would still have to be reasonable. We would
  have to have an opportunity to --
25
             THE COURT:
                         I understand.
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1
             MR. JOHNS: -- examine them.
2
             So I believe, Your Honor, that there was a
  good faith basis based on those reasonable inferences,
  based on the fact that we had this forensic analysis.
  We know the relationship to the parties. We know the
  post employment, the subsequent employment. I think
7
  all of those allow us to make that reasonable
  linference, and I don't think a plaintiff is required to
  have every fact in hand, simply that a reasonable
  investigation and reasonable inferences were made.
10
11
  That would be our opposition.
12
             THE COURT: All right. Thank you.
13
             Mr. Ellis, I'll give you the last word on
14
   this.
15
             MR. ELLIS: Yes, Your Honor. Your Honor
  asked counsel several times of what is the evidence.
17
  What is the evidence that these documents were used in
18
  \parallelthe -- we call it a litigation. It's called a
19
  litigation, but it was actually an arbitration because
  lit was a subcontractor. They were arguing about how
  much they should be paid. Well, the arbitration, there
22
  was an exchange of discovery. Documents were exchanged
  by the parties. None of those documents came from the
  drive, from the disk. None of those documents were
25
  used. There is no evidence that it was used in that
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litigation.

RE Construction is a subcontractor that was fed work by Athena. There's no evidence that they used these documents to become a prime government contractor or to steal or poach a client or a contract. There's nothing to suggest that even though they've made -- there's nothing to suggest it. There's nothing there at all even though they've made the allegation of misappropriation.

There is simply an allegation or suggestion that this disk existed within the arm's reach of the employees of RE Construction. That is not enough.

There is no fact supporting that RE Construction accessed the Athena documents. Yes, they accessed the disk, but the report doesn't show that the Athena documents were accessed by RE Construction. The report doesn't show that the Athena documents were printed or downloaded. The report -- the forensic report doesn't suggest anything in terms of use or misappropriation.

The report in the footnote that I was referring to is -- there's a footnote where it explains what the headers are on the spreadsheet, and there was a spreadsheet attached to the back of the report. One of those headers relates to the date that the documents were downloaded. So if you go to the spreadsheet under

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that header, you can actually look to see when those
  documents were downloaded onto the disk. And if you
  look and see, I think we state only 24 out of the 14
   were downloaded onto the disk after Mr. Smith was
  terminated. So that's the reference to the footnote.
5
             THE COURT: Those 24 relate to --
6
7
             MR. ELLIS: They relate to RE Construction
  stuff --
8
9
             THE COURT: -- RE Construction documents.
10
             MR. ELLIS: -- not to Athena stuff. And they
  don't show anything in terms of anyone doing anything
12 with this disk. We don't dispute that --
13
             THE COURT:
                         There's no evidence on that
  report concerning when other than when the Athena
  documents were accessed after being downloaded?
15
16
             MR. ELLIS: There is a summary statement in
17
  the report that they were accessed somewhere between
18
  January 25, 2016, and April 2, 2018. But if you look
19
  at it, the stuff that comes before the qui tam
  Ilitigation was just accessing the disk, not -- there's
21
  nothing that showed --
22
             THE COURT: Well, that's what I'm after.
                                                       Not
  just accessing the disk, but accessing the Athena
  documents themselves. Is there anything in the report
25
  that indicates dates of access as to the Athena
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documents themselves?

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MR. ELLIS: I don't believe so, Your Honor. Because if you had that, then you could actually, you know, relate it to -- well, here's RE Construction attending a bidding conference, and they've downloaded all of these financials for Athena. You could actually show what defendants are alleging. None of that information is in there. There's no information as to when documents were downloaded or by who other than to say that the disk was accessed.

THE COURT: All right.

MR. ELLIS: That work could have been done and at least it should have been done before these lawsuits were brought, or they should have just brought lit against Smith. If they got into discovery, according to their theory of the statute of limitations, they could've always come back to the Court and added a newly discovered party.

They didn't do that because the same reason they didn't file this as a cross-motion before Judge Mehta. They didn't do it because they wanted the duplicative process. They wanted the burden. They wanted to serve him at his home with his in-laws. 24 wanted all of this. They didn't care about the facts. They wanted this process, and they wanted the two

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defendants to face bills in the tens of thousands of
   dollars for this defense. That's what they wanted, and
  that's what they got.
             The Court shouldn't allow them to get away
  Wwith it.
             That's why we filed the motion.
             Thank you, Your Honor.
             THE COURT: All right. I'm going to take it
  under advisement. Let me just state a couple of
  things. I think Rule 11 quite clearly requires service
  of the actual motion, and that wasn't done in this
   case. So to the extent there's going to be an award of
12 attorney's fees, if the Court makes that decision, it
  would have to be under the Virginia Trade Secrets Act
  or the Virginia equivalent of Rule 11. The Court will
  consider that.
             I would like counsel to file very short --
  II'm talking about one page or two pages of just
  confirming their view specifically of whether the
  forensic report identifies the dates on which the
  Athena files were downloaded and any dates on which the
  Athena files, as opposed to the disk itself, were
  accessed. If you could, do that within the next, say,
  seven days.
             MR. JOHNS: Yes, Your Honor.
             MR. ELLIS:
                         Yes, Your Honor.
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              THE COURT: All right. The Court will take
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   it under advisement.
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             All right. Anything further?
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              MR. JOHNS: I was just looking for my mask.
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              THE COURT: All right.
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             MR. ELLIS: Nothing, Your Honor.
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              THE COURT: All right. Thank you.
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              Counsel is excused.
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              The Court will stand in recess.
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                       Time: 11:48 a.m.
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        I certify that the foregoing is a true and
22
    accurate transcription of my stenographic notes.
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                                           /s/
25
                             Rhonda F. Montgomery, CCR, RPR
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